Money Essentials

Buying a home: Buyer's guide

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1. Start with your credit. Credit reports are kept by the three major credit agencies, Experian, Equifax, and TransUnion. They show whether you are habitually late with payments and whether you have run into serious credit problems in the past.

A credit score is a number calculated from a formula created by Fair Isaac based on the information in your credit report. You have three different credit scores, one for each of your credit reports.

A low credit score may hurt your chances for getting the best interest rate, or getting financing at all. So get a copy of your reports and know your credit scores. Try Fair Isaac's MyFICO.com.

Errors are common. If you find any, contact the agencies directly to correct them, which can take two or three months to resolve. If the report is accurate but shows past problems, be prepared to explain them to a loan officer.

2. Set your budget. Next, you need to determine how much house you can afford. You can start with an online calculator. For a more accurate figure, ask to be pre-approved by a lender, who will look at your income, debt and credit to determine the kind of loan that's in your league.

The rule of thumb is to aim for a home that costs about two-and-a-half times your gross annual salary. If you have significant credit card debt or other financial obligations like alimony or even an expensive hobby, then you may need to set your sights lower.

Another rule of thumb: All your monthly home payments should not exceed 36% of your gross monthly income.

The size of your down payment will also determine how much you can afford.

3. Line up cash. You'll need to come up with cash for your down payment and closing costs. Lenders like to see 20% of the home's price as a down payment. If you can put down more than that, the lender may be willing to approve a larger loan. If you have less, you'll need to find loans that can accommodate you.

Various private and public agencies -- including Fannie Mae, Freddie Mac, the Federal Housing Administration, and the Department of Veterans Affairs -- provide low down payment mortgages

Hot List

Unpaid interns
lousy job pros


Every day is Pr
for Amazon ar
Bezos


Top 1% aren't
as they used t


Starbucks is ra
prices next we

A warning: With a down payment under 20%, you will probably wind up having to pay for private mortgage insurance, a safety net protecting the bank in case you fail to make payments. PMI adds about 0.5% of the total loan amount to your mortgage payments for the year.

Once you've considered the down payment, make sure you've got enough to cover fees and closing costs. These may include the appraisal fee, loan fees, attorney's fees, inspection fees, and the cost of a title search. They can easily add up to more than $10,000 -- and often run to 5% of the mortgage amount.

If your available cash doesn't cover your needs, you have several options. First-time homebuyers can withdraw up to $10,000 without penalty from an Individual Retirement Account, if you have one, though you must pay taxes on the amount. You can also receive a cash gift of up to $14,000 a year from each of your parents without triggering a gift tax.

Check on whether your employer can help; some big companies will chip in on the down payment or help you get a low-interest loan from selected lenders. You can also tap a 401(k) or similar retirement plan for a loan from yourself.

4. Find an agent: Most sellers list their homes through an agent -- but those agents work for the seller, not you. They're paid based on a percentage, usually 5 to 7% of the purchase price, so their interest will be in getting you to pay more.

You need "exclusive buyer agent." Sometimes buyer agents are paid directly by you, on an hourly or contracted fee. Other times they split the commission that the seller's agent gets upon sale. A buyer's representative has the same access to homes for sale that a seller's agent does, but his or her allegiance is supposed to be only to you.

5. Search for a home. Your first step here is to figure out what city or neighborhood you want to live in. Look for signs of economic vitality: a mixture of young families and older couples, low unemployment and good incomes.

Pay special attention to districts with good schools, even if you don't have school-age children. When it comes time to sell, you'll find that a strong school system is a major advantage in helping your home retain or gain value.

Try also to get an idea about the real estate market in the area. For example, if homes are selling close to or even above the asking price, that shows the area is desirable. If you have the flexibility, consider doing your house hunt in the off-season -- meaning, generally, the colder months of the year. You'll have less competition and sellers may be more willing to negotiate.

Be wary of choosing search criteria that are too restrictive. For example, select a price range 10% above and 10% below your true range. Add a 10-mile cushion to the location you specify.

6. Make an offer. Once you find the house you want, move quickly to make your bid. If you're working with a buyer's broker, then get advice from him or her on an initial offer. If you're working with a seller's agent, devise the strategy yourself.

Try to line up data on at least three houses that have sold recently in the neighborhood. If you really want the house, don't lowball. The seller may give up in disgust. Remember, that your leverage depends on the pace of the market. In a slow market, you've got muscle; in a hot market, you may have none at all.

There's no foolproof system for negotiating a fair price. Occasionally it's best to deal directly with the seller yourself. More often it's better to work exclusively through intermediaries.

Once you reach a mutually acceptable price, the seller's agent will draw up an offer to purchase that includes an estimated closing date (usually 45 to 60 days from acceptance of the offer).

7. Enter contract. Have your lawyer or buyers agent review this document to make sure the deal is contingent upon:

1. your obtaining a mortgage

2. a home inspection that shows no significant defects

3. a guarantee that you may conduct a walk-through inspection 24 hours before closing.

You also need to make a good-faith deposit -- usually 1% to 10% of the purchase price -- that should be deposited into an escrow account. The seller will receive this money after the deal has closed. If the deal falls through, you will get the money back only if you or the home failed any of the contingency clauses.

8. Secure a loan. Now call your mortgage broker or lender and move quickly to agree on terms, if you have not already done so. This is when you decide whether to go with the fixed rate or adjustable rate mortgage and whether to pay points. Expect to pay $50 to $75 for a credit check at this point, and another $150, on average to $300 for an appraisal of the home. Most other fees will be due at the closing.

If you don't already have one, look into taking out a homeowner's insurance policy, too. Most lenders require that you have homeowner's insurance in place before they'll approve your loan.

9. Get an inspection: In addition to the appraisal that the mortgage lender will make of your home, you should hire your own home inspector. An inspection costs about $300, on average, and up to $1,000 for a big job and takes two hours or more.

Ask to be present during the inspection, because you will learn a lot about your house, including its overall condition, construction materials, wiring, and heating. If the inspector turns up major problems, like a roof that needs to be replaced, then ask your lawyer or agent to discuss it with the seller. You will either want the seller to fix the problem before you move in, or deduct the cost of the repair from the final price. If the seller won't agree to either remedy you may decide to walk away from the deal, which you can do without penalty if you have that contingency written into the contract.

10. Close the deal. About two days before the actual closing, you will receive a final HUD Settlement Statement from your lender that lists all the charges you can expect to pay at closing.

Review it carefully. It will include things like the cost of title insurance that protects you and the lender from any claims someone may make regarding ownership of your property. The cost of title insurance varies greatly from state to state but usually comes in at less than 1% of the home's price.

The lender might also require you to establish an escrow account, which it can tap if you fall behind on your mortgage or property tax payments. Lenders can require deposits of up to two months' worth of payments.

The actual closing is often somewhat anticlimactic. It's a ritual affair, with customs that differ by region. Your lawyer or real estate agent can brief you on the particulars.

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